



## **Office of Inspector General**

### **Audit Report**

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## **Job Opportunity Reporting Under the Section 503 and 504 Programs**

**Report No. 4-3-E-009-023**

**September 30, 1994**

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### **Summary**

We have completed a survey of job opportunities reported by Certified Development Companies (CDCs) to be created or retained as a result of SBA's financial assistance under Sections 503 and 504 of the Small Business Investment Act. The objective of our review was to determine if the reported job opportunities created or retained as a result of SBA assistance were accurate and otherwise in compliance with SBA requirements.

We reviewed job opportunity information in the 1991 and 1992 annual reports submitted by six CDCs located in Alabama and Tennessee. The CDCs were selected based on amount of activity, location, and discussions with SBA staff. We also reviewed the CDCs' files for 31 selected projects and visited 11 of the 31 projects. In addition, we obtained and reviewed records of CDC job claims data maintained by the Office of Financial Assistance, Office of Rural Affairs and Economic Development (ORA&ED). We interviewed loan recipients, CDC and SBA staff, and several labor experts and economists.

We performed the survey during the period April 1993 to July 1993 and generally covered the period July 1990 to April 1993. We conducted our survey in accordance with government auditing standards.

## **Background**

The purpose of CDC (503/504) loan programs is to foster economic development and to create or preserve job opportunities by guaranteeing a portion of long-term loans for eligible capital expenditures of small business concerns. The SBA authorizes the sale of debentures, which it guarantees, as the source of its share, or financing, of approved project costs.

To qualify for assistance, the CDCs must demonstrate that the project to be funded will affect at least one of the following economic development objectives:

- (1) Jobs - The creation of job opportunities within 2 years of the completion of the project or the preservation or retention of job opportunities attributable to the project;
- (2) Community or Area Development - Improving the economy of the locality, such as stimulating other business development in the community; or
- (3) Public Policy Goals - The achievement of one of the following public policy goals: business district revitalization, expansion of exports, expansion of minority business, rural development, enhanced economic competition, changes necessitated by Federal budget cutbacks, or business restructuring.

Projects approved under the community development or public policy goal objectives need not meet the jobs objective if the CDC's overall portfolio meets the jobs objective.

SBA requires each CDC to maintain an average of at least one job opportunity for every \$35,000 of debenture financing provided, unless otherwise approved. Prior to June 14, 1990, the required job opportunity average was one job per \$15,000 of SBA debenture financing. The change from \$15,000 to \$35,000 was based on an SBA study of capital investment required for job creation and inflationary factors. The \$15,000 ratio had been in effect since 1980 and was believed to be outdated.

Based on CDC annual reports through September 30, 1992, the 503/504 projects funded totaled more than \$2.8 billion in SBA guaranteed debentures and created or retained over 314,000 jobs --an average of \$8,900 per job nationwide.

We concluded that the CDCs reviewed did not always comply with the SBA's job opportunity reporting requirements but had provided the required number of jobs (one for each \$35,000 of SBA assistance) on the approved projects. See Attachment 1 for a listing of the CDCs and projects reviewed, including the results of our review of job opportunities reported.

In a written response to our draft audit-related memorandum, the Director, ORA&ED, stated that the audit findings were consistent with their experience in getting CDCs to properly gather and report job creation and retention data. The Director generally concurred with our recommendations and indicated corrective action would be taken and, in some cases, had already been initiated. When fully implemented, the actions taken or proposed by the Director should resolve most of the reported findings. Because corrective actions had not been completed at the time of the Director's response, we have restated the recommendations in the final report.

## **Results of Review**

It appears that the six CDCs were generally achieving the program goal of fostering economic development through creation and retention or preservation of job opportunities in that they exceeded the minimum required average of one job for every \$35,000 in SBA assistance. Notwithstanding this general achievement level, five of the six CDCs did not fully comply with program reporting and documentation requirements and some made errors in the numbers of job opportunities shown in the annual reports reviewed. Also, SBA district office staff indicated that they did not emphasize job opportunity requirements in their monitoring of CDC activities. As a result, SBA's management information related to job opportunities created and retained through the 503/504 program was inaccurate. We are recommending that you take actions to emphasize the importance of CDCs' complying with job opportunity requirements, including filing accurate and complete annual reports to SBA.

For more information on this report, call:

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